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Recent Developments in the Canadian Economy: Spring 2018

by Guy Gellatly and Elizabeth Richards

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Recent Developments in the Canadian Economy: Spring 2018

by Guy Gellatly and Elizabeth Richards, Analytical Studies Branch

This article in the *Economic Insights* series provides users with an integrated summary of recent changes in output, employment, household demand, international trade and prices. Organized as a statistical summary of major indicators, the report is designed to inform about recent developments in the Canadian economy, highlighting major changes in the economic data during the second half of 2017 and early 2018. The article is accompanied by a chart book that provides additional information on recent economic developments. Unless otherwise noted, calculations presented in this report are based on seasonally adjusted data available in CANSIM on April 6, 2018.

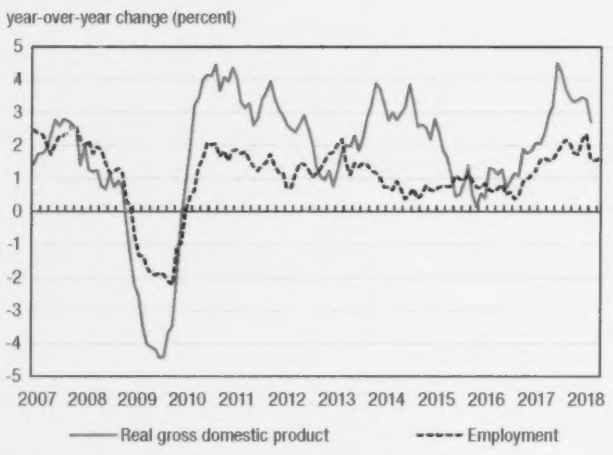
Overview

Economic growth moderated in the second half of 2017 following the strongest cumulative growth in the first half of the year since the early 2000s. Exports declined sharply in the third quarter, followed by a modest gain in the fourth. Households continued to support growth during the second half of the year, although the pace of household spending slowed in the fourth quarter. Business outlays on machinery and equipment and non-residential structures contributed to growth in both the third and fourth quarters. Higher output in construction industries supported goods production, while wholesale trade supported gains among services.

Employment strengthened in the second half of the year, led by increases in full-time work and among private sector employees. Higher employment among workers aged 55 and over accounted for nearly two thirds of the net increase during the last six months of the year. Employment in goods industries continued to increase, supported by gains in construction and manufacturing. About 60% of the net increase in employment in the last half of 2017 reflected gains in Ontario.

Overall, measured year-over-year, growth in real gross domestic product (GDP) was 3.4% in December, while employment growth rose to 2.3%, the largest year-over-year increase since late 2007. More recently, the pace of both output and employment growth eased in early 2018. (Chart 1).

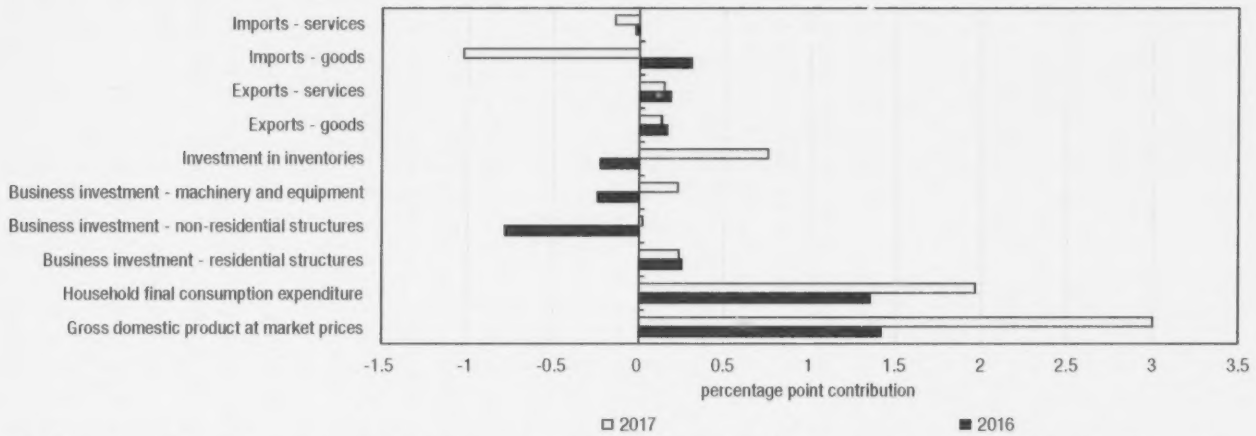
Chart 1
Output and employment



Sources: Statistics Canada, CANSIM tables 282-0087 and 379-0031.

For 2017 as a whole, real GDP in Canada increased 3.0%, following economic growth of 1.4% in 2016. Higher household spending accounted for about two-thirds of economic growth in 2017 (Chart 2). Business outlays on machinery and equipment made a modest contribution to growth in 2017, as did exports of goods and services. In the United States, real GDP rose by 2.3% in 2017, up from 1.5% in the previous year.

Chart 2
Contributions to real GDP growth, selected components



Notes: Data on gross domestic product are annual growth rates; all other data are percentage-point contributions to the the annual growth rates in real GDP. For additional data on these contributi ons, see the table noted below.
Source: Statistics Canada CANSIM table 380-0100.

Lower exports weighed on the pace of economic growth

The pace of economic growth slowed in the second half of 2017, following the strongest cumulative growth in the first half of the year since the early 2000s (Chart 3).[1] Real GDP rose 0.4% in the fourth quarter, matching the gain in the third. Exports weighed on growth in the third quarter, while consumer spending moderated late in the year. In the United States, real GDP growth slowed to 2.9% (annualized) in the fourth quarter, down from 3.2% in the third.

Export volumes were down 2.7% in the third quarter reflecting declines in motor vehicles and parts, metals and non-metallic minerals, and energy products. Exports of motor vehicles fell 9.1% in the third quarter, as production disruptions affected the Canadian auto sector. Energy exports also declined in the third quarter as crude and natural gas volumes edged lower. Overall export volumes edged up 0.7% in the fourth quarter, as a partial rebound in automotive exports (1.3%) was offset by lower energy volumes late in the year.

Import volumes also moderated in the second half of 2017. Imports increased 1.5% in the fourth quarter, after edging up (+0.1%) in the third. In the third quarter, higher imports of industrial machinery, equipment and parts and consumer goods were mainly offset by lower imports of energy products. Higher imports of electronic and electrical equipment and parts, as well as aircraft and other transportation equipment and parts, contributed to gains in the fourth quarter.

Improvements in the terms of trade, supported by higher energy prices, contributed to increases in real gross domestic income in late 2017. Nominal GDP rose 1.6% in the fourth quarter, following a 0.4% increase in the third.

For 2017 as a whole, export volumes rose 1.0%, following a 1.0% increase in 2016 and a 3.5% gain in 2015. Exports of services rose 2.8% in 2017, while goods exports edged up 0.6%. Import volumes rose 3.6%, following a decline of 1.0% in 2016.

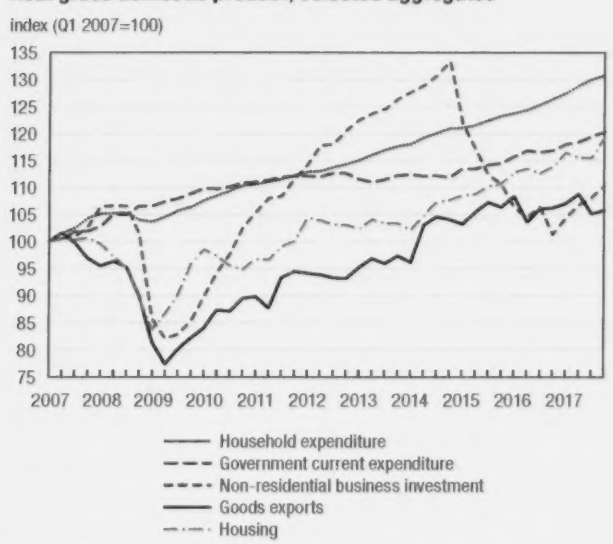
Household spending also moderated late in the year

Consumers contributed to growth throughout 2017 although the pace of spending moderated late in the year (Chart 3). Household final expenditures rose 0.5% in the fourth quarter, after advancing 0.9% in the third. Net expenditures by Canadians abroad, which bolstered household spending in the third quarter, weighed on spending in the fourth, while spending on food, beverage and accommodation services also slowed late in the year. Expenditures on durables moderated in the second half of 2017, as motor vehicle purchases slowed following notable gains in the first half. Auto purchases were unchanged in the fourth quarter, following a 0.6% increase in the third.

For 2017 as a whole, household final expenditures rose by 3.5%, up from 2.4% in 2016. Annual spending on durables, supported by strong auto sales in the first half of the year, rose 6.4%.

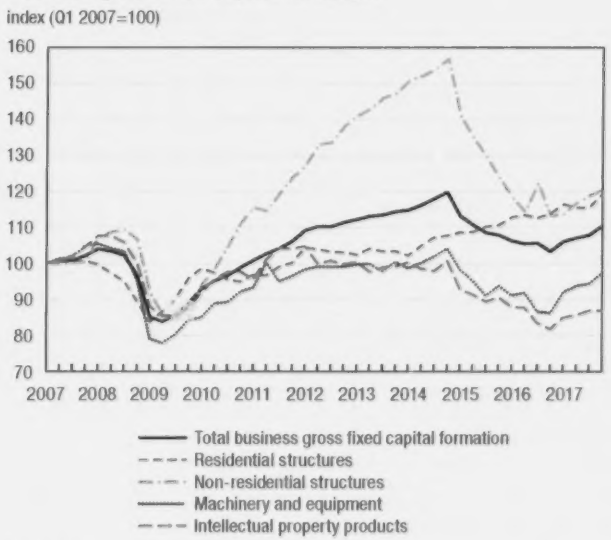
1. For an analysis of economic developments during the first half of 2017, see Gellatly and Richards (2017).

Chart 3
Real gross domestic product, selected aggregates



Note: Q1=first quarter.
Source: Statistics Canada, CANSIM table 380-0064.

Chart 4
Business gross fixed capital formation



Note: Q1=first quarter.
Source: Statistics Canada, CANSIM table 380-0068.

Non-residential business investment increased in 2017 but private-sector capital intentions lower for 2018

Non-residential business investment continued to improve in the second half of 2017 after significant declines in 2015 and 2016 (Chart 3). Combined outlays on machinery and non-residential structures rose 2.0% in the fourth quarter, following a 1.3% increase in the third. Spending on these assets has risen for four consecutive quarters. Nevertheless, outlays on non-residential structures and machinery and equipment (M&E) remained 17% below levels reached in the fourth quarter of 2014.

Business investment in non-residential structures rose 1.3% in the fourth quarter, following a 1.7% increase in the third (Chart 4). Spending on non-residential buildings edged lower in the fourth quarter, while outlays on engineering structures continued to strengthen and have risen for four consecutive quarters. Investment in machinery and equipment, supported by higher outlays on communications equipment and computers, rose 3.0% in the fourth quarter, and increased throughout 2017.

Following gains in the first three quarters of 2017, business investment in intellectual property was little changed in the fourth quarter, as declines in mineral exploration and evaluation were offset by higher outlays on research and development and software. Outlays on mineral exploration and evaluation declined in the second half of the year, after notable increases in first half. In late 2017, investments in mineral exploration and evaluation were 55% lower than levels at the end of 2014.

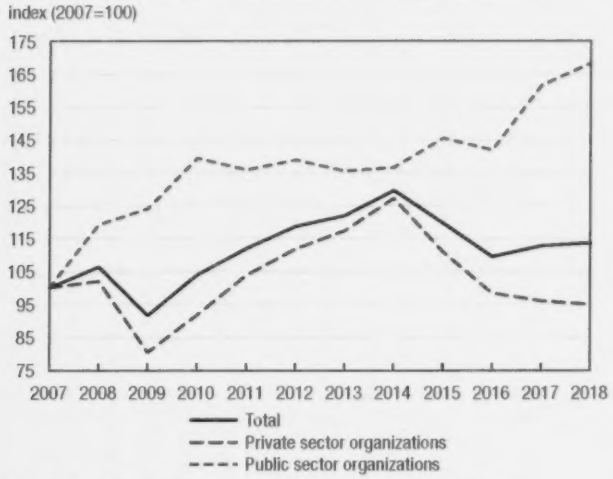
For 2017 as a whole, non-residential business investment rose 2.6%, following a 9.4% decline in 2016.

Going forward, private sector organizations anticipate spending 1.1% less on tangible capital assets in 2018, following declines in the previous three years (Chart 5).[2] Private-sector outlays are expected to decline in Alberta and Newfoundland, and increase in Ontario and Quebec. While private-sector outlays on tangible assets in Ontario are expected to rise, most of the overall increase in anticipated capital spending in Ontario reflects higher intentions among public sector organizations. Nationally, total non-residential capital intentions rose 0.8% in 2018 on higher public sector spending (+4.1%).

2. Data on capital intentions are based on current dollars estimates from the Capital and Repair Expenditures Survey, released on February 27th, 2018. These estimates reflect anticipated capital spending on non-residential tangible assets, including construction assets and machinery and equipment.

Oil and gas extraction industries anticipate spending 11.6% less on capital assets in 2018, reflecting lower intentions among both non-conventional and conventional producers. Businesses engaged in non-conventional oil extraction expect to spend $10.2 billion on capital assets in 2018, down over 70% from expenditure levels in 2014, a recent peak following significant investments in the period that followed the 2008-2009 recession. Anticipated spending among conventional oil and gas producers is down over 40% from 2014 levels. Businesses that provide support activities for mining and oil and gas extraction anticipate spending $2.2 billion on capital assets in 2018, up notably from expenditure levels in the previous year, but about one-third below expenditure levels in 2014.

Chart 5
Non-residential capital expenditures on tangible assets



Note: Data for 2017 are preliminary actual estimates; data for 2018 are intentions.
Sources: Statistics Canada, CANSIM tables 029-0045 and 029-0047.

In contrast, manufacturers anticipate spending 6.2% more on tangible capital assets in 2018, following sizable declines over the previous two years. Much of the anticipated growth in manufacturing reflects higher intentions in Alberta, led by increases in petroleum and coal products and chemical manufacturing. Manufactures in Ontario anticipate spending 5% more on capital assets, as higher intentions for primary metals and petroleum and coal products are partly offset by lower anticipated spending by manufacturers of transportation equipment. Anticipated spending in Quebec's manufacturing sector is down 3.0% in 2018.

Spending on residential structures rebounded

Capital spending on residential structures strengthened in the fourth quarter of 2017, advancing 3.2%, the largest quarterly increase in over five years. Spending on ownership transfer costs, which reflects the volume of activity in resale markets, accelerated in late 2017 in advance of the new minimum qualifying rate for uninsured mortgages which took effect in January 2018. Higher spending on new residential construction also contributed to growth late in the year.

For 2017 as a whole, investment in residential structures rose 3.1%, following a 3.3% gain in 2016.[3]

Goods production slowed as auto shipments declined

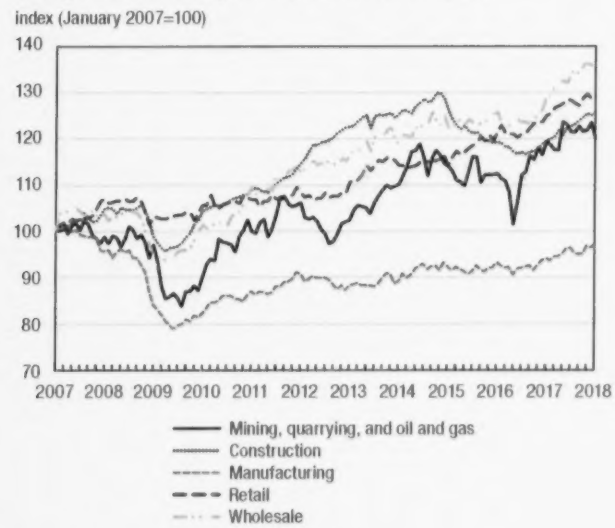
Construction industries contributed to higher goods production in the third quarter as non-residential activity strengthened, while manufacturing output edged lower as production disruptions affected the auto sector. Construction also contributed to increased goods production in the fourth quarter, while manufacturing rebounded on stronger durable output (Chart 6).

The output of construction industries rose from June to November, before contracting at year end. Construction output in December was 5.2% higher than at year-end 2016, as non-residential building construction rose during the second half of the year. Engineering construction, which trended sharply lower as oil prices declined in 2015 and 2016, also strengthened during the second half of 2017, building on gains earlier in the year. After lower activity during the summer months, residential building construction increased during the fall before edging lower in December.

Manufacturing declined during three of the last six months of 2017, as output at year end was little changed from mid-year levels. Declines among auto manufacturers weighed on the pace of growth during the second half, as auto production fell 7.6% in the third quarter before edging up 2.0% in the fourth. Manufacturers of wood products, computer and electronics products, and electrical equipment posted gains in the second half of the year.

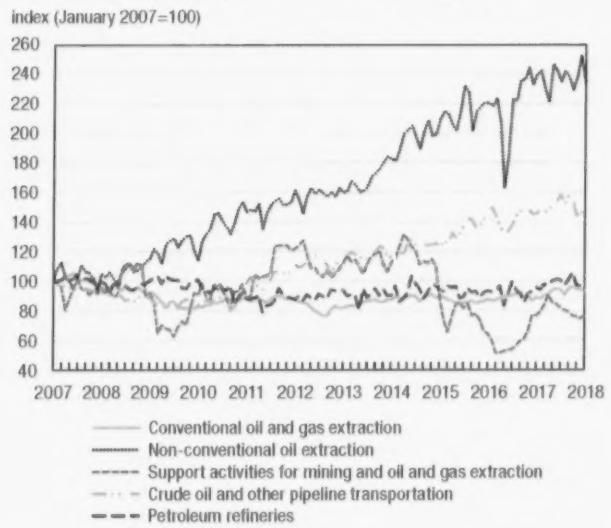
3. For a recent analysis of initial data from the Canadian Housing Statistics Program, see Gellatly and Morissette (2017).

Chart 6
Real gross domestic product, selected industries



Source: Statistics Canada, CANSIM table 379-0031.

Chart 7
Real gross domestic product, selected industries



Source: Statistics Canada, CANSIM table 379-0031.

Gains among services also moderated during the second half of 2017, as retail trade and finance and insurance weighed on growth in the third quarter. Wholesale industries supported gains among services in the third quarter, and then again in the fourth as finance and retail trade strengthened.

Support services for resource extraction edged lower

The growth in oil and gas extraction moderated in the second half of 2017 as lower production among conventional oil and gas producers late in the year was offset by increases in non-conventional output (Chart 7). After shutdowns affected production during the fall, non-conventional oil extraction rose in November and December. At year end, both non-conventional and conventional output was about 8% higher than levels in December 2016, supported by gains during the first half of the year.

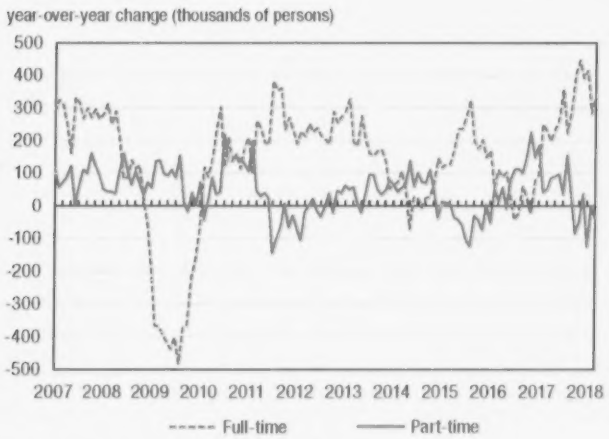
Businesses that provide support activities for mining and oil and gas extraction, including rigging and drilling services, reduced output during the second half of 2017, posting eight consecutive declines from May to December. Output at year end was down 2.7% from levels at the end of 2016, and about one-third below levels at the end of 2014, as these support activities trended lower with declines in oil prices in recent years.

More recently, real GDP edged down 0.1% in January 2018 on declines in non-conventional oil extraction and real estate activity. Higher output in manufacturing and construction partially offset these declines.

Total employment strengthened on full-time gains

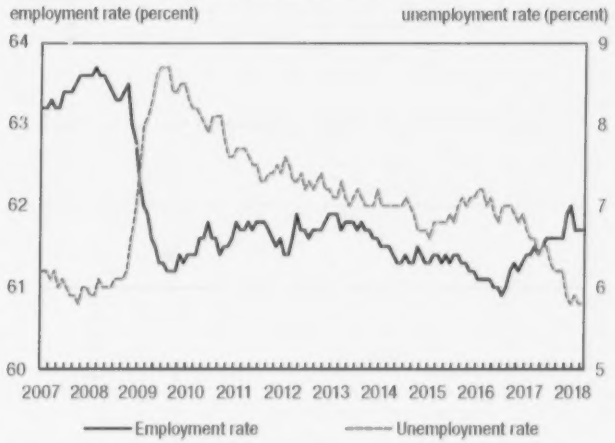
Total employment rose by 232,000 (+1.3%) in the last six months of 2017, largely on increases in full-time work (Chart 8). Gains among private sector employees accounted for over one-half of the net increase in employment, while higher employment among individuals aged 55 and over accounted for nearly two-thirds of the net increase. Employment in goods industries rose by 77,000 during the last six months of the year, supported by increases in construction and manufacturing. Gains among services during the second half were broad-based, led by increases in wholesale and retail trade, and transportation and warehousing. Almost 60% of the net increase in employment during the second half of 2017 was accounted for by gains in Ontario, supported by increases in full-time work. Full-time work in Quebec also strengthened during the second half of 2017.

Chart 8
Type of employment



Source: Statistics Canada, CANSIM table 282-0087.

Chart 9
Employment and unemployment rates



Source: Statistics Canada, CANSIM table 282-0087.

For 2017 as a whole, total employment increased by 427,000, about twice the net gain observed in 2016.[4] Almost all of the overall increase in 2017 was in full time-work, and about one-half of the gain reflected increases among private-sector employees.

More recently, total employment contracted during the first quarter of 2018, reflecting declines in part-time work and among private sector employees. The net decline in employment during the first quarter reflected a large reduction in part-time work in January. Full-time employment (+78,000) continued to strengthen during the first quarter.

Unemployment edged below 6% as employment strengthened

The national unemployment rate trended lower during the second half of 2017 and again in early 2018 to a record low of 5.8% (Chart 9). Quebec's unemployment rate was 5% at year end, down from 6.7% at the end of 2016, while Ontario's rate declined from 6.4% to 5.6% over this twelve-month period. Alberta's unemployment rate declined to 7.0% in December 2017 as labour market conditions in the province continued to improve. British Columbia's unemployment rate, the lowest among the provinces, edged down to 4.6% at year end, and has been below 5% since September 2017.

On the strength of recent job gains, the national employment rate continued to rise during the second half of 2017, building on an upward trend that began in mid-2016 as economic conditions began to improve.[5] This followed several years during which the national employment rate trended lower due to the impact of population aging on the labour market. At the end of 2017, the national employment rate reached 62.0%, the highest rate in almost nine years. The employment rates in Quebec and Ontario at year end were 61.6% and 61.4%, respectively. British Columbia's rate was 62.3%, while the employment rate in Alberta's edged above 67% for the first time since March 2016.

Earnings growth strengthened on broad-based gains among industries

The growth in average weekly earnings, measured year-over-year, accelerated in the second half of 2017, and was at or above 3.0% from September to November before edging down to 2.5% at year-end (Chart 10). Earnings growth in the goods sector strengthened in the fall, supported by gains in construction and utilities. Among services, earnings growth was broad-based, as wholesale and retail industries, finance and insurance industries, real estate industries, and professional, scientific and technical industries all posted notable gains in the second half of the year.

4. Annual estimates for 2017 are based on the twelve-month change in employment from December 2016 to December 2017.
5. The employment rate is the number of employed persons expressed as share of the working age population.

Chart 10
Earnings and inflation

Sources: Statistics Canada, CANSIM tables 281-0063 and 326-0020.

Earnings growth began to outpace increases in consumer price inflation in early 2017, with the gap between the two widening in the second half of the year. The year-over-year change in average weekly earnings averaged 2.5% in the last six months of 2017, while headline inflation averaged 1.6%.

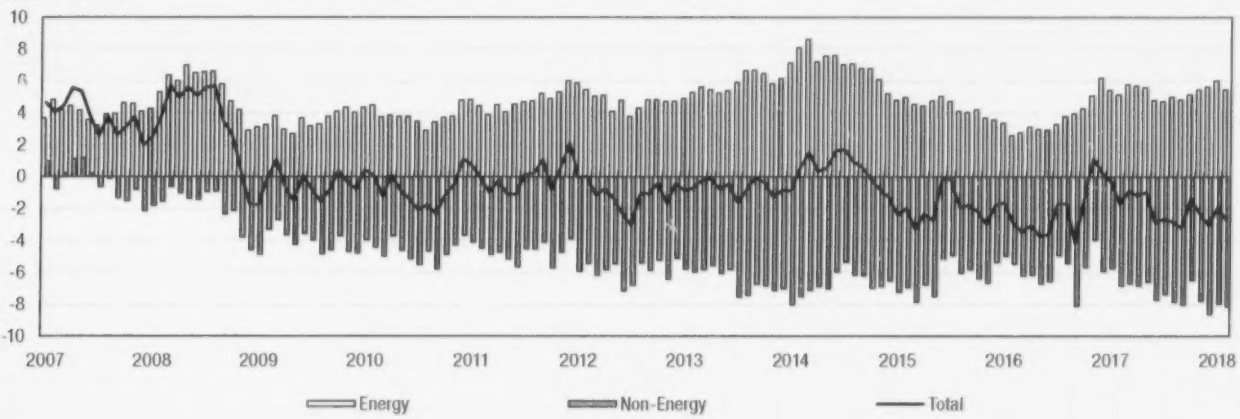
Evidence of stronger earnings growth in the second half of the year was apparent from a range of statistical measures. Average hourly and weekly wage rates for full-time work, based on data from the Labour Force Survey, also rose in the second half, as did wage rates for part-time work. Similarly, the quarterly growth rate in wages and salaries, as reflected in estimates of nominal GDP, rose above 1.4% in both the third and fourth quarters, the fastest pace of growth since early 2011.

Merchandise trade deficits widened as non-energy exports declined

Canada continued to post merchandise trade deficits through the second half of 2017, as larger deficits for non-energy products weighed on trade balances (Chart 11). The cumulative merchandise trade deficit during the second half of the year totalled $15.4 billion, an increase of $7.4 billion from the cumulative deficit during the first six months of the year. The cumulative deficit on non-energy commodities was $5.7 billion higher in the second half of 2017, as exports of motor vehicles and parts contracted. The cumulative surplus on energy products narrowed in the second half (down $1.7 billion), as lower export volumes offset higher energy prices.

For 2017 as a whole, Canada's merchandise trade deficit narrowed to $23.3 billion, the third consecutive annual trade deficit, and down from $25.9 billion in 2016, as larger energy surpluses were offset by wider non-energy deficits.

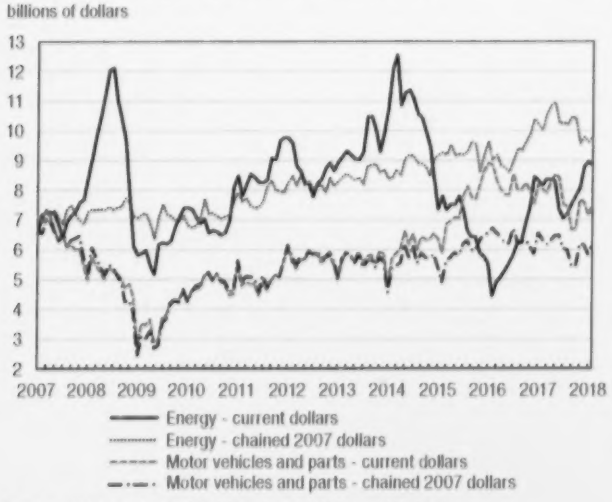
Chart 11
Merchandise trade balance, energy and non-energy commodities



Source: Statistics Canada, CANSIM table 228-0059.

Total merchandise exports in the second half of 2017 were 4.0% lower than in the first six months of the year, reflecting broad-based declines. Lower shipments of motor vehicles and parts, down 11.6%, accounted for one-half of the decline in total exports in the second half of the year (Chart 12). Energy exports also declined in the second half, down 4.9% on lower volumes. Lower exports of consumer goods (-5.6%) also contributed to weaker exports in the second half, as exports of food, beverage and tobacco products decreased.

Chart 12
Merchandise exports, selected commodities



Sources: Statistics Canada, CANSIM tables 228-0059 and 228-0061.

Petroleum and coal products and machinery bolstered manufacturing sales

Following gains in the first half of 2017, total manufacturing sales edged up 0.4% during the second half of the year, supported by higher sales of petroleum and coal, machinery, and wood products. Higher sales by petroleum and coal manufacturers (+7.2%) led the gains, supported by higher prices. Lower sales by auto producers weighed on manufacturing sales in the second half.

For 2017 as a whole, manufacturing sales rose 6.0%, as broad-based gains were partly offset by lower sales of motor vehicles. Sales of petroleum and coal products rose 23.7%, following two consecutive annual declines, as prices for refined petroleum products partly recovered in 2017. Higher sales of machinery products and primary metals also contributed to the gain.

More recently, manufacturing sales declined 1.0% in January 2018 on lower shipments of motor vehicles, aerospace products and parts, and primary metals.

Continued strength in demand for autos supported retail sales

Total retail sales were 2.1% higher in the second half of 2017 than during the first six months of the year, reflecting continued strength among motor vehicle and parts dealers and price-led gains among gasoline stations. Excluding sales at gasoline stations, total retail sales rose 1.8% during the second half of the year. Higher sales in Ontario, British Columbia and Quebec accounted for the bulk of the growth in the second half of 2017.

For 2017 as a whole, retail sales rose 6.7%, following a 5.1% gain in 2016, as all sub-sectors posted higher annual sales. Higher sales among motor vehicle and parts dealers accounted for over one third of the annual gain, as new motor vehicle sales continued at record levels in 2017, reflecting sustained increases in the demand for sport utility vehicles and pick-up trucks. Higher sales in Ontario, British Columbia and Quebec led the growth in 2017.

More recently, retail sales edged up 0.3% in January 2018 supported by gains among general merchandise stores.

Home prices moderated in Toronto and accelerated in Vancouver

The increase in home prices, measured year-over-year, moderated in the second half of 2017, reflecting a deceleration in Greater Toronto (Chart 13). Based on estimates from the Aggregate Composite MLS Home Price Index, home prices were up 9.1% on a year-over-year basis at the end of 2017, down from a high of 19.7% earlier in the year. The pace of home price inflation, measured year-over-year, continued to slow in early 2018, edging down to 6.9% in February.[6]

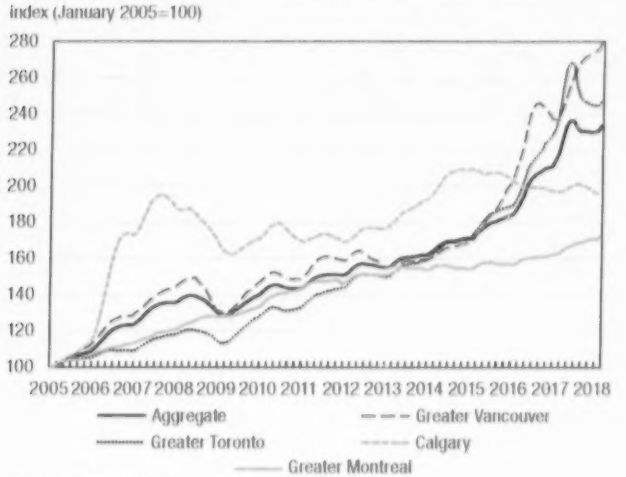
Following the introduction of the Fair Housing Plan by the Government of Ontario in April 2017, home prices in Toronto declined on a monthly basis from June to August, and continued to edge lower towards the end of the year. The increase in home prices in Greater Toronto, measured year-over-year, slowed to 7.2% in December 2017, after reaching a high of 31.3% earlier in the year. Home price inflation has continued to moderate in recent months, edging down to 3.2% in February 2018.

In contrast, the increase in home prices continued to accelerate in Greater Vancouver in the second half of 2017, rising to 15.9% year-over-year in December. Price increases have continued to edge higher in recent months.

Meanwhile, home prices in Montreal have also risen higher, and were up 5.4% on a year-over-year basis in December 2017, increasing to 6.1% in February 2018.

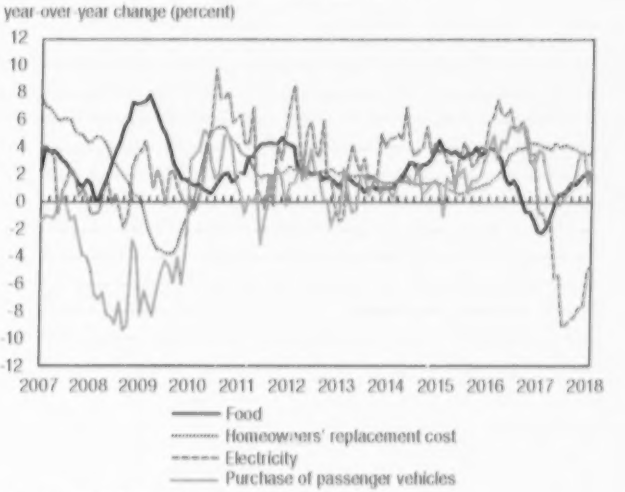
6. The Multiple Listing Service Home Price Index (MLS HPI) is published by the Canadian Real Estate Association. The index controls for differences in mix of sales activity over time. The aggregate composite MLS HPI aggregates transactional data across 11 major markets, and includes data on one and two-storey homes, row and townhouse units, and apartments. For background, see MLS, Home Price Index Methodology, version 2.1, July 6, 2016. The Canadian Real Estate Association.

Chart 13
Multiple listing service home price index, selected cities



Source: The Canadian Real Estate Association.

Chart 14
Consumer price index, selected aggregates



Source: Statistics Canada, CANSIM table 326-0020.

Monthly housing starts averaged 226,000 (seasonally adjusted at annual rates) during the second half of 2017, increasing from 214,000 in the first half of the year. Average starts in the second half increased in British Columbia and Quebec. Ground-breaking on new homes picked up in early 2018 on higher apartment starts in Ontario. Monthly starts in Ontario (seasonally adjusted at annual rates) rose from 66,000 at year end to 106,000 in February, led by increases in Toronto.

Both headline and core consumer inflation edged higher

After decelerating to 1.0% at mid-year, consumer price inflation strengthened during the second half of 2017, reaching 2.1% in November before slowing to 1.9% at year end. During the second half of the year, transportation and shelter prices contributed the most to year-over-year increases in the headline rate. Prices for clothing and footwear continued to decline on a year-over-year basis during much of the second half, before edging up 0.5% in December.

Food prices, measured year-over-year, rose during the second half of 2017, rebounding from declines in late 2016 and early 2017 (Chart 14). Prices for food purchased from stores edged higher in the second half, accelerating to 1.5% in December. Prices for food purchased from restaurants were 2.9% higher at year end than in December 2016.

The homeowners' replacement cost index, which in part reflects changes in new housing prices, moderated in the second half of the year, decelerating to 3.5% at year end, the slowest year-over-year increase since mid-2016. In contrast, the mortgage interest cost index accelerated during the second half of 2017, as chartered banks increased their lending rates in response to changes in the Bank of Canada's policy rate. At year end, mortgage interest costs were 1.3% higher year-over-year.

Lower electricity costs continued to moderate the overall pace of consumer price inflation during the second half of 2017, reflecting the impact of the *Ontario Fair Hydro Plan Act*.

After posting year-over-year declines from May to September, the durable goods index, which includes prices for passenger vehicles, accelerated to 1.5% in November and December. Prices for passenger vehicles were 3.6% and 3.7% higher on a year-over-year basis in those months.

The Bank of Canada's preferred measures of core inflation edged higher during the second half of 2017. At year end, these three year-over-year measures (CPI-common CPI-trim, and CPI-median) ranged from 1.6% to 1.9%.[7]

More recently, headline consumer inflation increased to 2.2% in February, after decelerating to 1.7% at the start of 2018. The Bank of Canada's preferred measures of core inflation continued to edge higher in early 2018, as CPI-trim and CPI-median accelerated to 2.1% in February. The mortgage interest cost index rose by 2.3% on a year-over-year basis in February, reflecting the impact of interest rate changes in the second half of 2017.

7. For more information on these measures, see Bank of Canada's Preferred Measures of Core Inflation General Information Document.

Equities strengthened in 2017 as energy, financials and industrials advanced

Toronto stock prices (S&P/TSX composite index) strengthened in the second half of 2017, following little net change over the first six months of the year (Chart 15). The composite index rose to 16,209 at year end, up 6.8% from June. Financials and industrials posted gains in the second half of 2017, while the Canadian energy index rose 12.1%, partly offsetting a 22.1% decline in the first half. The gold index at year end was little changed from levels at mid-year.

Chart 15
S&P/TSX, selected indexes

Source: Statistics Canada, CANSIM table 176-0047.

More recently, the S&P/TSX composite index declined by 1.6% in January and 3.2% in February as the energy and consumer indices posted consecutive declines.

Bond yields and mortgage rates edged higher

Yields on benchmark Government of Canada five-year bonds rose in the second half of 2017 and in early 2018. Five-year bond yields were at 1.82% at the end of 2017, up from 1.16% a year earlier, before edging above 2% in early 2018. Chartered bank conventional five-year mortgage rates rose from 4.64% at mid-year to 4.99% at year end, before edging above 5% in early 2018 for the first time in nearly four years. The Bank of Canada raised the target for the overnight rate by 25 basis points in both July and September, followed by a third 25 basis point increase, to 1.25%, in January 2018.

The value of the Canadian dollar appreciated against the U.S. dollar during the third quarter, before edging lower later in the year. The dollar traded as high as 82.5 cents U.S. following the Bank of Canada's September interest rate decision, before edging below 78 cents U.S. in late October.[8] The dollar edged higher in late 2017, closing out the year at 79.7 cents U.S.

More recently, the Canadian dollar traded above 81 cents U.S. in late January 2018. The dollar edged lower in February and March, trading around 78 cents U.S. in early April.

Commodity prices strengthened on increases in energy and non-energy products

After little net change over the first six months of 2017, the commodity price index rose 7.9% during the second half of the year, bolstered by higher prices for energy products. Energy prices rose 11.2% in the second half, rebounding from a 7.3% decline over the first six months of the year. Prices for forestry, metals and minerals, and fish also strengthened in the second half of the year.

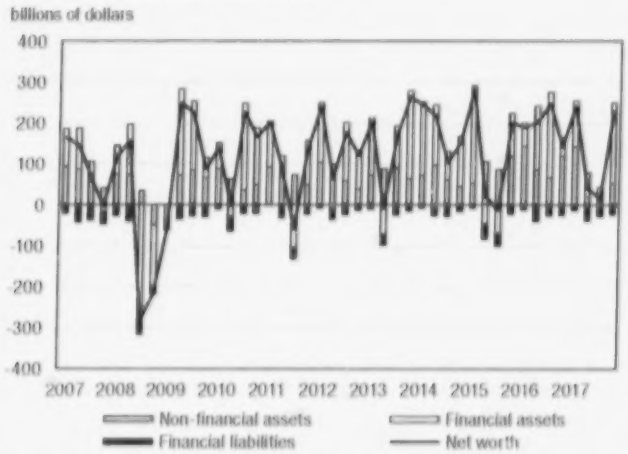
Overall commodity prices at the end of 2017 were 8.6% higher than price levels a year earlier. Excluding energy, commodity prices were up 14.8%, led by gains in forestry, metals and minerals and agriculture.

Equities and investment funds supported increase in household net worth

The net worth of households rose 2.1% in the fourth quarter of 2017, following little change (+0.1%) in the third (Chart 16). Increases in the market value of equity and investment fund shares led gains late in the year, supported by changes in the value of life insurance assets and pensions. Increases in residential structures and land also contributed to higher household net worth in the fourth quarter. Total household assets at the end of 2017 were valued at $13.05 trillion, while total financial liabilities amounted to $2.16 trillion.[9]

8. Reported exchange rates noted in this section are indicative Daily rates published by the Bank of Canada.
9. Reported data on household assets and liabilities are not seasonally adjusted.

Chart 16
Change in household net worth



Notes: Negative values indicate a decline in the value of assets or an increase in the value of liabilities.
Source: Statistics Canada, CANSIM table 378-0121.

The pace at which households have been accumulating debt slowed towards the end of the year. Household credit market debt rose 1.1% in the fourth quarter, following a 1.3% increase in the third. Higher mortgage debt accounted for about 60% of the increase in household debt liabilities late in the year. The ratio of household credit market debt to disposable income edged lower to 170.4% in the fourth quarter, while the household debt-to-asset ratio declined to 16.6%, and has generally trended lower since the 2008-2009 recession.

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